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# **BUSINESS-TO-BUSINESS CONFLICTS AND ENVIRONMENTAL GOVERNANCE IN GLOBAL SUPPLY CHAINS**

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## **ABSTRACT**

The ways in which conflicts, especially business-to-business conflicts, can contribute to positive environmental practices in global supply chains is underexplored. Drawing on an ethnographic study in South India, we explore the pollution of the Noyyal River by textile dyeing factories and the key role that the conflict between mutually dependent garment exporters and dyers at the bottom of the supply chain played in its gradual recovery. Our data show that the conflict contributed to better environmental practices by a) creating an opportunity space for external intervention b) strengthening state and private investments and innovations aimed at improving environmental practices; and c) establishing bottom-up accountability and compliance. Our data also show that a) external industrial shock, b) vulnerability of business actors to various factors, c) mutual dependence, and d) institutions to overcome collective action problems enabled the conflict's contribution to improvements in environmental practices.

## **INTRODUCTION**

The advent of global supply chains has enabled the dispersion of production processes across the globe. While this strategy has cost benefits, it also exposes lead firms to numerous risks that may lead to harmful consequences if not governed appropriately (Andersen & Skjoett-Larsen, 2009). Notable among risks are those that emerge from the environmentally unsustainable or irresponsible behavior of suppliers in countries with inadequate regulation and enforcement (Soundararajan & Brammer, 2018). If not mitigated, imprudent supplier behavior can threaten the interests and reputation of the lead firms.

Among the governance innovations to improve environmental sustainability of global supply chains, collaborative initiatives receive the most attention. The basic premise of such initiatives is that any single actor alone cannot address extremely complex sustainability issues. Different actors – directly or indirectly connected to the supply chain - need to combine their resources and knowledge to develop ‘robust’ (Ferraro, Etzion & Gehman, 2015) initiatives. Research within the collaboration school has been exploring the design, implementation and evaluation processes of these initiatives from various theoretical perspectives, including deliberation theory (Mena & Palazzo, 2012), stakeholder theory (Gilbert & Rasche, 2008), and a resource-based view (Gold, Seuring, & Beske, 2010).

While collaborative environmental governance initiatives are an effective and important alternative to top-down or compliance-oriented initiatives or regulations, the ways in which conflicts, especially business-to-business (B2B) conflicts between mutually dependent actors at the bottom of the supply chain can contribute to positive environmental practices in supply chains is underexplored. This may be due to the fact the B2B conflict per se is an under-theorized and often misunderstood concept within the management literature. Scholarly and practitioner discourses on supply chain governance have generally perceived conflict as antithetical to good governance (e.g. Gold et al., 2010). But this does not seem to always be the case. On the other hand, in political economy, scholars have emphasized the potentially positive side of B2B conflicts. This has been most clearly articulated in studies of international environmental politics, by authors like Falkner (2008) and Meckling (2011), who have shown how B2B conflicts can create opportunities for environmental policy changes. Given this, we seek to contribute by asking the question: how and under what conditions can business-to-business (B2B) conflict at the bottom of global supply chains facilitate positive environmental practices?

## **LITERATURE REVIEW**

Lead firms use direct and indirect governance mechanisms to safeguard the environmental performance of their supply chains (Gimenez & Sierra, 2013). In terms of direct mechanisms, lead firms engage in a variety of activities, including carefully selecting their suppliers, assessing them against company codes of conduct, incentivizing them through more orders or offering a better price, making environmental performance an important buying criterion, and developing them through training and collaborative initiatives (Krause, Vachon & Klassen, 2009). The primary indirect mechanisms that lead firms use two types of multi-stakeholder initiatives (MSIs), namely enforcement-oriented and instruction-oriented. In addition to MSIs, lead firms use intermediaries to improve the social and environmental performance of their supply chains. For example, Soundararajan, Khan & Tarba (2018) show how sourcing agents engage in boundary work to bring together the sustainability interests of suppliers and buyers while Wilhelm et al. (2016) show how tier-one suppliers can act as double agents ensuring improved sustainable performance of themselves and their suppliers.

Both direct and indirect environmental governance approaches stress collaboration between vertically and horizontally connected actors as a necessary condition for improved sustainability of supply chains (Vurro, Russo & Perrini, 2009). Whether focused on the reduction of toxic matter (Pagell, Yang, Krumwiede & Sheu, 2007) or environmental innovation (Verghese & Lewis, 2007), most studies concur that improving the environmental performance of supply chains requires some form of long-term collaboration, information sharing and joint learning (Strand, 2009).

While we acknowledge the importance of these collaborative initiatives, the potential impact of conflicts between actors cannot be ignored. The influence of conflicts between businesses and civil society organizations on environmental governance has been a topic of interest across disciplines and industries for decades. For example, in management studies, Baron & Yurday (2004) have documented activist strategies targeting financial institutions. In political science, Bartley (2003) and Sasser, Prakash, Cashore, & Auld, (2006) have documented campaigns targeting the forestry industry, and Bloomfield (2014, 2017a) has studied activist strategies and corporate responses in financial markets and along the gold supply chain. A set of

studies in the supply chain literature focuses on conflicts between vertically connected global buyers and local suppliers, though these studies see conflicts as unproductive in terms of supply chain performance (e.g. Griffith, Harvey, & Lusch, 2006).

In the field of environmental politics, there is a growing body of literature recognizing the importance of not treating business as a single entity with shared and well-defined interests. Sometimes referred to as the ‘business conflict school’ (Skidmore, 1995), these scholars recognize that businesses are diverse, with different interests and divergent positions when it comes to shaping or reacting to political issues. For example, environmental concerns – whether climate change, ozone depletion, deforestation, or something else – affect business actors in different ways and these actors, in turn, will take different positions on the issues.

The basic idea is that policy decisions will not always favor business interests, and most policies will be more or less favorable to some business interests than to others (Bloomfield, 2017b). With constantly increasing expectations and monitoring of business when it comes to corporate environmental conduct, the willingness and ability of the business community to form a collective front to counter one environmental policy or another has been significantly diminished (Falkner, 2008). So, business conflict has become an important factor to consider when predicting or explaining the environmental policies of states and firms (Meckling, 2011).

In sum, the positive impacts of conflicts between business actors, especially between those in the same supply chain and located in the same context, have received significantly less attention. Also, the exact mechanisms through and conditions under which B2B conflict can lead to positive sustainability practices remains underexplored. Further, there has been little attention given to actors in the global South, and even less given to those actors working near the bottom of global supply chains, which are significant gaps our study aims to fill.

## METHODS

We used a single case study method (Yin, 1994) to answer the research question. We focus on the conflict between exporters and dyers in Tirupur, which is the unit of analysis. The conflict emerged after the Madras High Court (the High Court of the state of Tamil Nadu) passed an interim-order directing the dyeing units to achieve Zero Liquid Discharge (ZLD) status in 2011. Our fieldwork shows the period after 2011 is when Tirupur saw improvements in environmental practices, including investments in research and development, the development of new technologies to achieve ZLD, and installation of monitoring units. Our intention is not to connect these changes only to the conflict between dyers and exporters. Numerous factors besides the conflict, including regulatory changes and buyer requirements could have also played a role. In this paper, we attempt to filter out the contribution of the conflict to the changes in supply chain practices and the conditions that enabled them.

The data collection period for this study ran from March to May 2017 with a return trip in December 2017. We used a range of qualitative techniques, namely interviews, observations, conversations and documents to acquire rich and in-depth data. In total, we conducted 46 face-to-face semi-structured interviews. In line with an ethnographic approach, these interviews were supplemented with innumerable informal conversations and field observations. The fieldwork included informal conversations with a wide range of relevant actors, including the interviewees. We recorded reflections at the end of each day. In terms of field observations, numerous field sites, namely CETPs, IETPS, manufacturing units, dyeing units, areas around Noyyal river, sludge disposal areas, farmlands, nearby villages and towns were visited. We took pictures,

videos and notes where appropriate. Additionally, we have collected nearly 1000 A4 pages of publicly available research reports, news reports, court case reports, and scientific papers related to the case, all of which remain on file with the authors. We also consulted related documentary and news videos available online. We analyzed the collected data using a systematic analytic approach recommended for process research (Langley, 1999).

## **FINDINGS AND CONTRIBUTIONS**

Our study shows how the preferences of business actors at the bottom of the global supply chain and the divisions within and across industries eventually led to tightened regulations and efforts to clean the river and its surrounding environment. Specifically, we show that conflicts between exporters and dyers led to improvements in environmental practices of the cluster by creating an opportunity space for external actors' intervention, strengthening state and private investments and innovations, and establishing bottom-up accountability and compliance. Further our study shows that these influences are contingent upon the presence of an external industrial shock, mutual vulnerability of business actors, mutual dependence amongst business actors, and institutions that helped them overcome collective action problems. By highlighting the importance of business conflict as an explanatory factor for improved environmental performance at the bottom of the supply chain, we contribute to three related literatures on sustainable supply chains.

First, we contribute to the management literature on sustainable supply chains by introducing the business conflict conceptual lens. Studies of sustainable supply chains in management studies have focused on collaborations amongst business actors and between business actors and other actors from civil society and the state aimed at achieving sustainable outcomes in global supply chains (e.g. Touboulic & Walker, 2015). Likewise, management scholars have studied conflict between business interests and non-business actors over sustainability policies and practices. But, to date, the role of B2B conflict in facilitating positive sustainability practices has been neglected. While we focussed only on environmental sustainability, the study's findings can also be extended to social sustainability issues in supply chains.

Second, the environmental politics literature that does focus on B2B conflict and its role in shaping environmental policy outcomes has focused on large transnational corporations and powerful Northern market actors, from big oil to big pharma (e.g. Meckling, 2011) to the neglect of the multitude of business actors working at various stages of global supply chains. In particular, those business actors operating out of the global South have received very little attention. Relatedly, while the focus on large, transnational issues like climate change and ozone layer depletion is clearly important, the environmental issues felt most acutely for most people are, arguably, local in nature. Here we bring the business conflict lens to the global South, focusing on Southern actors and Southern issues, and, in so doing, contribute to this growing literature while also unsettling assumptions about the power and preferences of Southern firms.

Third, most studies of sustainable supply chains across disciplines have focused on top-down or vertical governance measures to supply chain governance such as codes, standards and contracts. While such initiatives are popular and often impactful, the result has been a neglect of the role of Southern business actors and those businesses located further down global supply chains (Soundararajan & Brammer, 2018). When these actors are brought into sustainability discussions, they are most often envisaged as rule-takers. Here, we aim to disrupt these

tendencies by examining the potential for horizontal governance or bottom-up accountability and compliance, wherein Southern actors and supply chain intermediaries conceive of, monitor, and enforce sustainability practices.

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